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BOSTON'S FIRST BILLION DOLLAR BUDGET FACES LARGE SHORTFALL

August 2, 1984

Highlights

- Boston faces a \$35 to \$55 million gap between expenditures and revenues in fiscal 1985.
- City officials should develop a comprehensive multi-year program to address Boston's shortfall problem. This program should become the basis for public debate on appropriate City and State action.
- Balancing the budget should not come at the expense of liquidating legitimate reserves for prior year obligations and utility abatements.
- While much can be done by the City to reduce spending further, its actions alone will not solve Boston's larger fiscal problem.

In April the Mayor offered his financial plan for fiscal 1985. That plan was presented as being in balance assuming legislative enactment of a \$10 million parking excise tax. After two and one-half months, based on more current financial information and the Legislature's rejection of the parking excise tax, the City's financial plan appears seriously out of balance. The Research Bureau estimates that Boston presently faces a gap between expenditures and revenues ranging from \$35 to \$55 million. The components of this fiscal analysis are many and still subject to change. The Bureau presents its findings now to allow time for City and State officials and the public to focus on this problem and begin fashioning acceptable solutions.

The estimated gap between expenditures and revenues can be reduced if the City acts now. Indeed, the Mayor must reduce spending further to present a balanced plan to the State Department of Revenue before the tax rate can be set and tax bills issued. The magnitude of the shortfall this year and prospects for similar shortfalls in the next few years clearly indicates that Boston cannot solve its fiscal problems alone and that the State must contribute to the long-term financial stability of its capitol city.

The Bureau's analysis of the City's fiscal position is summarized in table form on page three. The table presents both best and worst case scenarios. Revenue and expenditure figures are based on the most current fiscal 1985 information and Research Bureau projections. This report examines the appropriation, fixed cost/deficit and revenue components of the accompanying table and discusses the key elements of each.

Departmental Appropriations

The Bureau's analysis is based on current appropriations and does not consider spending beyond authorized levels. Any expenditure in excess of available resources will add to the shortfall estimates. The aggregate appropriation for all city departments and services, including hospitals, is \$420.7 million, an increase of \$9.7 million or 2.4% over last year. The total city departmental appropriation does not provide for salary increases negotiated last year or for any that may be approved this year. In an attempt to address this problem the Mayor has asked each department to hold 4% of its personnel service budget in reserve. Further, the Mayor directed 48 departments to cut their operational spending by an additional 5%. Exempt from this directive were the major line departments of Police, Fire, Hospital, Public Works and Parks and Recreation which represent 68% of total departmental operations.

The Suffolk County appropriation for fiscal 1985 is \$17.5 million, a reduction of \$134,794 from last year. The Bureau added \$1.6 million to the appropriation because the Courthouse Custodian account was funded for only a half-year. That cost will be covered by \$2.8 million in additional state aid to Boston for courthouse maintenance. The School Department appropriation of \$246.5 million, when added to other available resources, will produce a total budget of about \$259 million, some \$23 million more than last year's actual expenditures.

Fixed Costs and Deficit Appropriations

Fixed cost items are not included in the Mayor's departmental budget but represent almost 30% of the total city appropriation. They include expenditures for pensions, debt service, state charges and MBTA assessments. The City's cost for pensions, tax title and state and metropolitan assessments have been established for this year. Pension costs increased by \$11.3 million or 11% over last year. The Bureau's range of debt service cost is based on different capital and short-term borrowing assumptions. The overlay reserve for abatements reflects that by law the City must raise at least 5% of the net property tax levy and no more than 6%.

When an overlay reserve for abatements for a particular levy year is depleted and abatements for a that year are still being granted, a deficit is created which must be raised in the following year's tax rate. The current overlay deficit is \$10.9 million but different amounts have been added to provide for utility abatements and a more realistic reserve for abatements expected to be granted for this year. The fiscal 1984 revenue and appropriation deficits are based on preliminary July figures. The total fiscal 1984 deficit estimate is about \$52 million. The expected application of close to \$10 million of reserves will reduce the deficit to approximately \$42 million.

Revenue Budget

When the Mayor presented his fiscal 1985 budget recommendations to the City Council in April it contained for the first time a summary estimate of revenues. The Bureau reviewed this revenue budget but for the most part based its estimates on more current information. The City's own source revenue estimates can be no greater than the prior year's actual receipts unless approved first by the Department of Revenue. While this approach is taken to guard against overestimating revenues and creating revenue deficits, Boston finished the last three years with revenue deficits. The Bureau's revenue estimates are based on last year's actual receipts reported as of July, 1984, with anticipated growth factored-in where appropriate. The parking fine estimates range between \$2 and \$4 million over actual collections. Hospital receipts anticipate a slower rate of growth primarily due to the effect of cost containment legislation.

Anticipated state revenue for Boston is based on cherry sheet estimates plus changes made in the fiscal 1985 state budget. The state budget provided an increase of about \$7 million to Boston beyond the original cherry sheet estimates. However, because city officials incorporated some of the anticipated changes in the April financial plan and because some of the new money is earmarked for special programs outside general operations, the net increase is about \$1.5 million. Boston's revenue sharing entitlement will be less than the \$18 million appropriated by the City Council. Street cut fees, collected from utilities and authorities for work involving road alterations, will range between \$2 and \$3 million under a newly proposed collection program that has yet to be authorized.

Nonrecurring revenue, consisting of funds from the sale of City-owned garages, can range between \$25 and \$33 million. Included in the \$33 million figure is \$4 million from the sale of a second parcel adjoining the Fort Hill garage site which the Bureau assumes will not be sold until fiscal 1986. The remaining variance depends on how much of the garage funds the Flynn Administration allocates to a housing trust.

The property tax levy of \$359.2 million is the City's estimate based on an expectation of \$1.04 billion or 7.8% in new value from January, 1983, to January, 1984. These early estimates anticipated existing value to have increased by \$477.2 million or 3.6% and new development by \$558.1 million. For the City to achieve a net increase of \$477.2 million in existing value, actual value would have to increase by \$677.2 million or 5.1%. This year Boston lost approximately \$200 million in taxable value when Harvard's Medical Area Total Energy Plant (MATEP) received its final tax-exempt 121A designation.

BOSTON FY1985 TAX RATE PARAMETERS

	Fiscal 1984 Budget	Fiscal 1985 Best Case	Fiscal 1985 Worst Case
Departmental Appropriations	\$672,643,631	\$686,416,182	\$686,416,182
City	303,632,698	311,725,894	311,725,894
County	17,819,880	19,189,186	19,189,186
Hospital	106,191,053	109,001,102	109,001,102
School	245,000,000	246,500,000	246,500,000
Fixed Costs	\$198,964,645	\$209,737,357	\$214,787,357
Contributory Pensions	102,535,388	113,837,357	113,837,357
Debt Service	73,400,000	77,000,000	78,500,000
Tax Title Costs	2,200,000	900,000	900,000
Overlay Reserve	20,829,257	18,000,000	21,550,000
Metropolitan & State Assess.	\$47,782,789	\$49,903,343	\$49,903,343
Deficit Appropriations	\$42,291,226	\$54,490,000	\$56,490,000
Overlay Deficit	5,600,000	12,970,000	14,970,000
Revenue Deficit-Prior Year	20,819,301	26,143,000	26,143,000
Approp. Deficit-Prior Year	15,871,925	15,377,000	15,377,000
Total Expenditures	\$961,682,291	\$1,000,546,882	\$1,007,596,882
Departmental Revenue	\$199,446,270	\$205,240,960	\$199,980,107
City	82,135,731	83,464,423	79,203,570
Parking Fines	25,133,447	27,000,000	25,000,000
In Lieu of Tax Payments	13,808,318	15,000,000	14,255,000
Interest	12,804,026	15,153,423	14,153,423
Other City	30,389,940	26,311,000	25,795,147
Hospital	113,300,000	115,000,000	114,000,000
County/Court House Rental	\$3,136,127	6,185,233	6,185,233
School	874,412	591,304	591,304
State Revenue	306,699,269	336,592,906	336,592,906
Parking Meter Fees	\$3,559,888	\$5,000,000	\$4,000,000
Federal Revenue Sharing	18,525,000	18,000,000	17,000,000
Motor Vehicle Excise	7,463,422	9,000,000	8,560,000
Street Cut Fees	0	3,000,000	2,000,000
Non-Recurring Revenue	\$81,985,523	\$29,329,616	\$25,329,616
D.A.F. Surplus	34,085,523	0	0
Sale of Garages	18,500,000	29,329,616	25,329,616
Overlay Surplus	19,600,000	0	0
Reserves	9,800,000	0	0
Total Non-Property Tax Rev.	\$617,679,372	\$606,163,482	\$593,462,629
Property Tax Revenue	\$333,268,119	\$359,200,000	\$359,200,000
Grand Total Revenue	\$950,947,491	\$965,363,482	\$952,662,629
Projected Imbalance		(\$35,183,400)	(\$54,934,253)

Recommendations

The estimated appropriation/revenue gap of between \$35 and \$55 million this fiscal year makes it incumbent upon the Mayor to further reduce spending and increase the City's own-source revenues. There are a number of options to explore to address Boston's fiscal problems. The Bureau will contribute to this discussion in upcoming Special Reports. The initial recommendations made on the following page are actions that can be taken immediately by the City and implemented with no other approval required.

1. The Mayor and his financial officers need to develop a comprehensive multi-year program to address Boston's shortfall problem. This program should outline steps the City can take on its own to decrease spending and increase its local revenues. Further, the program should identify state actions that would provide direct financial benefits through increased local aid distributions, assumption of services now provided by Boston or Suffolk County and authorization of new local taxes. Since many state-help options would be structured to provide regional or state-wide benefits, Boston should coordinate its efforts with other municipalities and interested parties. This program should form the basis of public debate on the fiscal problems facing municipalities in the Commonwealth.
2. With personnel services representing 68% of Boston's departmental appropriations this year, expenditure reduction plans must focus on employee costs. Boston's workforce should be cut by 685 positions over the next twelve months. The City must negotiate with the employee unions to forego salary increases this year and to seek management flexibility to allow for more productive service delivery. However, salary adjustments for middle management personnel are advisable. Non-salary benefits should be carefully analyzed to determine their actual dollar cost and a moratorium on new benefits should be imposed. Existing management rights should not be surrendered. As an example, in last year's memorandum of agreement between the City of Boston and AFSCME/Council 93, the Flynn Administration relaxed its right to be the sole determiner in temporarily promoting an employee to a higher position and for this concession received nothing in return.
3. Boston should maintain its legitimate reserves for utility abatements and prior year obligations. Approximately \$20.6 million has been set aside for the utility abatements and additional amounts should be raised to protect the City against another "Tregor-type" financial crisis. Boston's utility abatement liability is estimated to be between \$50 and \$80 million.
4. The 5% spending reduction called for by the Mayor should apply to all departments including Police, Fire and Hospitals. To reduce the gap between authorized spending levels and revenues, the expected savings from the 5% cut and the 4% personal services reserve should be disappropriated from each department.
5. Existing local revenues should be reviewed and fees and charges increased where feasible. This step was taken in fiscal 1981 and produced modest increases. Collection and recording of fees and charges should be strictly enforced to maximize full receipts of all monies owed. The City should adopt a standardized payment-in-lieu of taxes formula and request that all tax-exempt institutions utilize it to help defray the cost of city services.

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